

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Brown City Area Fire Authority	County Sanilac County
Fiscal Year End March 31, 2008	Opinion Date June 4, 2008	Date Audit Report Submitted to State June 4, 2008	

We affirm that:

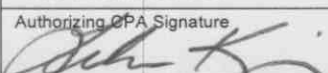
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | |
|-----|--|---|
| | | Check each applicable box below. (See instructions for further detail.) |
| 1. | <input checked="" type="checkbox"/> <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input checked="" type="checkbox"/> <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	Communication with Those Charged with Governance	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Lehn L. King, C.P.A.		Telephone Number 989-635-3113	
Street Address 3531 Main Street		City Marlette	State MI
Zip 48453			
Authorizing CPA Signature 		Printed Name Lehn L. King, C.P.A.	License Number A248781

Brown City Area Fire Authority

Sanilac County, Michigan

Audited Financial Report
March 31, 2008

Lehn L. King

Certified Public Accountant
Marlette, Michigan

Brown City Area Fire Authority
Annual Financial Report
For The Fiscal Year Ended March 31, 2008

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Board Members

Brown City Area Fire Authority

Sanilac County, Michigan

Independent Auditor's Report

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brown City Area Fire Authority, Michigan as of and for the year ended March 31, 2008 which collectively comprise the Brown City Area Fire Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Brown City Area Fire Authority, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Brown City Area Fire Authority, Michigan as of March 31, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

The Audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Brown City Area Fire Authority, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the Brown City Area Fire Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of April 1, 2004.

Lehn King

Lehn L. King

Certified Public Accountant

June 4, 2008

Brown City Area Fire Authority

Brown City, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS LETTER

Our discussion and analysis of the Brown City Area Fire Authority's financial performance provides an overview of the Fire Authority's financial activities for the fiscal year ended March 31, 2008. Please read it in conjunction with the Fire Authority's financial statements.

Financial Highlights

The Fire Authority is in good financial position. The Fire Authority's fund balances in the Operating and Equipment Reserve Funds as of March 31, 2008, were \$57,294 and \$117,371, respectively.

Using this Report

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No.34. GASB Statement 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the Fire Authority's annual report.

The Fire Authority as a Whole

The Brown City Area Fire Authority's fund balances are as follows:

	March 31, 2008	March 31, 2007
Fire Operating	\$ 57,294	\$ 59,451
Equipment Reserve Fund	117,371	100,868
Total for Fire Authority	<u>\$ 174,665</u>	<u>\$ 160,319</u>

Brown City Area Fire Authority

Brown City, Michigan

Governmental Activities

The Brown City Area Fire Authority's Revenues and Expenditures can be summarized as follows:

	Fire Operating Fund		Equipment Reserve Fund	
	March 31,		March 31,	
	2008	2007	2008	2007
Fund Balance - Beginning of Year	\$ 59,451	\$ 52,981	\$ 100,868	\$ 84,944
Revenue Collected				
Operating Fees	90,060	95,020	-	-
Equipment Reserve Fees	15,900	-	13,170	13,170
Interest Earnings	3,462	3,744	3,334	2,754
Donations	8,973	3,639	-	-
Other	657	727	-	-
Transfers	-	-	-	-
Total Revenue Collected	119,052	103,130	16,504	15,924
Expenditures				
Public Safety - Fire	93,030	80,818	-	-
Capital Outlay	12,336	-	-	-
Debt Service	15,842	15,842	-	-
Transfers	-	-	-	-
Total Expenditures	121,208	96,660	-	-
Fund Balance - End of Year	<u>\$ 57,295</u>	<u>\$ 59,451</u>	<u>\$ 117,372</u>	<u>\$ 100,868</u>

Brown City Area Fire Authority

Brown City, Michigan

Economic Factors and Next Year's Budget and Rates

The Brown City Area Fire Authority's 2008/2009 adopted budget is as follows:

	Fire Operating Fund		Equipment Reserve Fund	
	March 31,		March 31,	
	2009	2008	2009	2008
Revenue				
Operating Fees	109,875	107,710	-	-
Equipment Reserve Fees	-	-	13,170	13,170
Interest Earnings	3,700	4,200	2,750	2,000
Other	3,310	4,100	-	-
Transfers	-	-	-	-
Total Revenue Collected	116,885	116,010	15,920	15,170
Expenditures				
Public Safety - Fire	91,760	90,110	15,920	15,170
Capital Outlay	4,000	10,000	-	-
Debt Service	21,125	15,900	-	-
Transfers	-	-	-	-
Total Expenditures	116,885	116,010	15,920	15,170
Net Over/Under Budget	\$ -	\$ -	\$ -	\$ -

Contacting the Fire Authority

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Fire Authority's finances and to demonstrate the Fire Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Fire Authority at the Brown City Hall located in Brown City, Michigan or by telephone at (810) 346-2325.

James Groat, Jr.
Brown City Area Fire Authority Chief

Brown City Area Fire Authority

Statement of Net Assets (Deficit)

March 31, 2008

	<u>Primary Government Governmental Activities</u>
<u>Assets</u>	
Cash & Cash Equivalents	\$ 182,470.37
Capital Assets (Net of Accumulated Depreciation)	<u>333,037.79</u>
Total Assets	515,508.16
<u>Liabilities</u>	
Accounts Payable & Accrued Wages	\$ 7,805.00
Current Portion of Long-Term Debt	15,003.00
Long-Term Debt	<u>3,654.51</u>
<u>Total Liabilities</u>	<u>26,462.51</u>
Net Assets (Deficit)	
Invested in Capital Assets - Net of Related Debt	314,380.28
Unrestricted	<u>174,665.37</u>
<u>Total Net Assets (Deficit)</u>	<u><u>\$ 489,045.65</u></u>

The notes are an integral part of the statements.

Brown City Area Fire Authority

Statement of Activities
For the Year Ended March 31, 2008

		Program Revenues			Net (Expense) Revenue & Changes in Net Assets
		Charges for	Operating	Capital	Primary Government
	Expenses	Services	Grants & Contributions	Grants & Contributions	Governmental Activities
<u>Functions/Programs</u>					
Primary Government:					
Governmental Activities:					
Public Safety	\$ 120,789.82	\$ 119,130.00	\$ -	\$ -	\$ (1,659.82)
Interest on Long-Term Debt	1,545.58	-	-	-	(1,545.58)
<u>Total Governmental Activities</u>	<u>\$ 122,335.40</u>	<u>\$ 119,130.00</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(3,205.40)</u>
General Revenues:					
Interest					6,795.40
Donations					8,973.07
Other Revenues					657.00
Transfers					-
Total General Revenues, Special Items & Transfers					<u>16,425.47</u>
Change in Net Assets					13,220.07
Net Assets (Deficit) - Beginning of Year					<u>475,825.58</u>
Net Assets (Deficit) - End of Year					<u>\$ 489,045.65</u>

The notes are an integral part of the statements.

Brown City Area Fire Authority

Governmental Funds

Balance Sheet

March 31, 2008

	Fire Operating Fund	Equipment Reserve Fund	Total Governmental Funds
<u>Assets</u>			
Cash & Certificates of Deposit	\$ 65,099.12	\$ 117,371.25	\$ 182,470.37
<u>Total Assets</u>	<u>\$ 65,099.12</u>	<u>\$ 117,371.25</u>	<u>\$ 182,470.37</u>
<u>Liabilities & Fund Equity</u>			
<u>Liabilities</u>			
Accounts Payable & Accrued Wages	\$ 7,805.00	\$ -	\$ 7,805.00
<u>Total Liabilities</u>	<u>7,805.00</u>	<u>-</u>	<u>7,805.00</u>
<u>Fund Equity</u>			
Fund Balances			
- Unreserved & Undesignated	57,294.12	117,371.25	174,665.37
<u>Total Fund Balances</u>	<u>57,294.12</u>	<u>117,371.25</u>	<u>174,665.37</u>
<u>Total Liabilities & Fund Equity</u>	<u>\$ 65,099.12</u>	<u>\$ 117,371.25</u>	<u>\$ 182,470.37</u>

The notes are an integral part of the statements.

Brown City Area Fire Authority

Governmental Funds

Reconciliation of Fund Balances to the Statement of Net Assets (Deficit)

For The Year Ended March 31, 2008

Total Fund Balances for Governmental Funds	\$ 174,665.37
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Amounts reported for Governmental Activities in the Statement of
Net Assets (Deficit) are different because:

Capital Assets used in Governmental Activities are not Financial Resources and are not reported in the Funds	333,037.79
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Long-Term Bonds Payable are not due and payable in the current period and are not reported in the Funds	<u>(18,657.51)</u>
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Net Assets of Governmental Activities	<u><u>\$ 489,045.65</u></u>
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The notes are an integral part of the statements.

Brown City Area Fire Authority
Governmental Funds
Statement of Revenues, Expenditures, And Changes
in Fund Balances
For The Year Ended March 31, 2008

	Fire Operating Fund	Equipment Reserve Fund	Total Governmental Funds
<u>Revenues</u>			
Operating Fees	\$ 90,060.00	\$ -	\$ 90,060.00
Equipment Reserve Fees	15,900.00	13,170.00	29,070.00
Interest Earnings	3,461.79	3,333.61	6,795.40
Donations	8,973.07	-	8,973.07
Other Revenues	657.00	-	657.00
<u>Total Revenues</u>	<u>119,051.86</u>	<u>16,503.61</u>	<u>135,555.47</u>
<u>Expenditures</u>			
Public Safety	93,030.44	-	93,030.44
Capital Outlay	12,336.00	-	12,336.00
Debt Service - Principal	14,296.87	-	14,296.87
Debt Service - Interest	1,545.58	-	1,545.58
<u>Total Expenditures</u>	<u>121,208.89</u>	<u>-</u>	<u>121,208.89</u>
Excess of Revenues Over (Under) Expenditures	(2,157.03)	16,503.61	14,346.58
<u>Other Financing Sources (Uses)</u>			
Operating Transfers In (Out)	-	-	-
Net Change in Fund Balances	(2,157.03)	16,503.61	14,346.58
<u>Fund Balances - Beginning of Year</u>	<u>59,451.15</u>	<u>100,867.64</u>	<u>160,318.79</u>
<u>Fund Balances - End of Year</u>	<u>\$ 57,294.12</u>	<u>\$ 117,371.25</u>	<u>\$ 174,665.37</u>

The notes are an integral part of the statements.

Brown City Area Fire Authority

Governmental Funds

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For The Year Ended March 31, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 14,346.58
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Amounts reported for Governmental Activities in the Statement of
Activities are different because:

Governmental Funds report Capital Outlays as Expenditures in the Statement of Activities, these costs are capitalized and allocated over their estimated useful lives as Depreciation	12,336.00
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Repayment of Bond Principal is an Expenditure in the Governmental Funds, but not in the Statement of Activities (where it reduces Long-Term Debt)	14,296.87
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Depreciation is an Expenditure for the Statement of Activities, but is not reported in the Governmental Funds	<u>(27,759.38)</u>
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Net Assets of Governmental Activities	<u><u>\$ 13,220.07</u></u>
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Brown City Area Fire Authority

Notes to the Financial Statements
For The Year Ended March 31, 2008

The accounting methods and procedures adopted by the Brown City Area Fire Authority, Sanilac County, Michigan, conform to generally accepted accounting principles as applied to governmental entities. The following notes to the financial statements are an integral part of the Fire Authority's Comprehensive Annual Financial Report.

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Brown City Area Fire Authority was created on February 10, 1995, by the City of Brown City and the Townships of Burnside, Flynn, Lynn, and Maple Valley. The Authority operates under a joint five member boards consisting of one (1) representative from the City and four (4) from the Townships, for the purpose of providing total fire protection to the City and various Townships.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) in its Statement No. 14, the Brown City Area Fire Authority is not considered to be part of any other governmental entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public services, fiscal independence, financial accountability, imposition of will and financial benefit or burden. On this basis, the financial statements of other governmental organizations are not included in the financial statements of the Brown City Area Fire Authority.

Government-wide and Fund Statements Fund

The Government-wide Financial Statements (i.e., the Statement of Net Assets (Deficit) and the Statement of Activities) report information on all the nonfiduciary activities of the Fire Authority (the primary government). The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the Government-wide Financial Statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Fire Authority reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

Equipment Reserve Fund - The Equipment Reserve Fund is used to account for equipment acquisitions.

Brown City Area Fire Authority

Notes to the Financial Statements
For The Year Ended March 31, 2008

Measurement Focus and Basis of Accounting

The Government-wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenues, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the Fire Authority. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, and claims and judgments are recorded only when payment is due.

Cash - The Fire Authority does not pool cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the Fire Authority's investments.

Investments - Debt securities are valued at cost since it is generally the policy of the Fire Authority to hold such investments until they mature.

Due to and Due from Other Funds - Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Capital Assets - Capital assets, which include buildings and equipment, are reported in the applicable governmental column in the Government-wide Financial Statements. Capital assets are defined by the Fire Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings & Building Improvements	20 to 40 years
Machinery & Equipment	3 to 10 years

Brown City Area Fire Authority

Notes to the Financial Statements
For The Year Ended March 31, 2008

Long-Term Obligations - In the Government-wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Accounting Changes

GASB Statement No. 34 – Effective April 1, 2004, the Fire Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). Changes to the Fire Authority's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the Fire Authority's overall financial position and results of operations has been included.
- Government-wide Financial Statements (statement of net assets (deficit) and statement of activities) prepared using full accrual accounting for all of the Fire Authority's activities have been provided.
- Capital assets in the governmental activities column of the statement of net assets (deficit) includes assets not previously accounted for by the Fire Authority as well as assets previously reported in the General Fixed Assets Account Group. In addition, the governmental activities column includes bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

2. Fire Protection Agreement

On February 10, 1993, the City of Brown City and the Townships of Burnside, Flynn, Lynn, and Maple Valley, entered into an agreement to create the Brown City Area Fire Authority for the purpose of providing fire protection services. The Fire Authority operates under a five (5) member board composed of City and Township representatives who have the power to purchase, maintain, and operate the Authority as they see necessary.

Under the agreement, each municipality shall pay its proportional share of the operating expenses, excluding depreciation, plus any fixed assets purchased during the period, based upon a formula of population, state equalized evaluation and fire usage.

Brown City Area Fire Authority

Notes to the Financial Statements
For The Year Ended March 31, 2008

2. Fire Protection Agreement - Continued

The agreement was renegotiated effective April 1, 1995. The agreement specifies the proportional cost sharing annual fund contributions. The agreement will remain in force unless terminated by a vote of three (3) of the municipalities.

3. Stewardship, Compliance, and Accountability

Budgetary Information

The Fire Authority is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds, Debt Service Funds, Capital Project Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

In the body of the financial statements, the Fire Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The budget is used by the Fire Authority Board as a management tool during the year for all budgetary funds. The budgets are adopted on a cash basis, which is not consistent with generally accepted accounting principles. Budgetary control is exercised at the departmental level. Budgets for the General Fund and the major Special Revenue Funds, Debt Service Funds, and Capital Project Funds are presented in the required supplemental information.

During the year ended March 31, 2008, the Fire Authority incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
<u>Fire Operating Fund</u>			
Salaries	\$ 20,060	\$ 23,153	\$ 3,093
Maintenance - Vehicles	10,800	15,049	4,249

Brown City Area Fire Authority

Notes to the Financial Statements
For The Year Ended March 31, 2008

4. Cash and Cash Equivalents

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Fire Authority Board has designated one bank for the deposit of Authority funds. There is not an investment policy adopted by the Authority in accordance with Public Act 196 of 1997. The Board has authorized investment in bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Authority's deposits are in accordance with statutory authority. All cash deposits and investments of the Authority are held by the Authority in the Authority's name.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Total Primary Government
Cash & Cash Equivalents	\$ 182,470	\$ 182,470

The breakdown between deposits and investments is as follows:

	Primary Government
Bank Deposits (Checking & Savings Accounts, CDs)	\$ 182,470

The bank balance of the primary government's deposits is \$182,470, of which \$100,000 is covered by federal depository insurance and \$-0- is collateralized with U.S. Treasury securities held by the pledging financial institution's trust department in the Authority's name.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had approximately \$82,470 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority's investment policy does not further limit its investment choices.

At year end, there were no investments reported in the basic financial statements.

Brown City Area Fire Authority

Notes to the Financial Statements
For The Year Ended March 31, 2008

5. Capital Assets

Capital Assets activity of the Fire Authority's governmental activities (and business-type) was as follows:

	Balance April 1, 2007	Additions	Disposals & Adjustments	Balance March 31, 2008
Governmental Activities:				
Capital Assets Being Depreciated:				
Buildings & Building Improvements	\$ 188,712	\$ -	\$ -	\$ 188,712
Machinery & Equipment	363,512	12,336	-	375,848
Total Capital Assets being Depreciated	552,224	12,336	-	564,560
Accumulated Depreciation:				
Buildings & Building Improvements	52,766	3,774	-	56,540
Machinery & Equipment	150,997	23,985	-	174,982
Total Accumulated Depreciation	203,763	27,759	-	231,522
Net Capital Assets	\$ 348,461	\$ (15,423)	\$ -	\$ 333,038

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
Public Safety	\$ 27,759
Total Governmental Activities	<u>\$ 27,759</u>

6. Long-Term Debt

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General Obligation Bonds & Contracts						
Fire Hall Construction						
Amount of Issue - \$163,500						
Maturing through 2009	4.50%	\$15,842	\$ 32,955	\$ (14,297)	\$ 18,658	\$ 15,003
Total			<u>\$ 32,955</u>	<u>\$ (14,297)</u>	<u>\$ 18,658</u>	<u>\$ 15,003</u>

Annual debt service requirements to maturity for the above governmental bond and contract obligations are as follows:

Years Ending March 31,	Governmental Activities		
	Principal	Interest	Total
2009	\$ 15,003	\$ 839	\$ 15,842
2010	3,655	164	3,819
Total	<u>\$ 18,658</u>	<u>\$ 1,003</u>	<u>\$ 19,661</u>

Required Supplemental Information

Brown City Area Fire Authority

Required Supplemental Information

Budgetary Comparison Schedule

Fire Authority Operating Fund

For The Year Ended March 31, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Amended Budget</u>
<u>Revenues</u>				
Operating Fees				
Burnside Township	\$ 29,575.70	\$ 29,575.70	\$ 29,575.70	\$ -
Flynn Township	11,329.55	11,329.55	11,329.55	-
Lynn Township	5,763.84	5,763.84	5,763.84	-
Maple Valley Township	19,885.25	19,885.25	19,885.25	-
City of Brown City	23,505.66	23,505.66	23,505.66	-
Interest	4,200.00	3,500.00	3,461.79	(38.21)
Debt Reserve	15,900.00	15,900.00	15,900.00	-
Donations	3,600.00	9,010.00	8,973.07	(36.93)
Other	500.00	2,850.00	657.00	(2,193.00)
<u>Total Revenues</u>	<u>114,260.00</u>	<u>121,320.00</u>	<u>119,051.86</u>	<u>(2,268.14)</u>
<u>Expenditures</u>				
Salaries	24,000.00	20,060.00	23,153.00	(3,093.00)
Payroll Taxes	4,000.00	3,330.00	1,661.37	1,668.63
Operating Supplies	7,010.00	7,930.00	7,530.66	399.34
Professional Services	1,000.00	1,000.00	1,000.00	-
Telephone	950.00	760.00	750.19	9.81
Gas & Oil	4,000.00	3,400.00	3,201.24	198.76
Insurance	18,750.00	21,620.00	21,569.89	50.11
Utilities	6,000.00	6,500.00	5,932.34	567.66
Administrative Fee	2,100.00	2,100.00	2,100.00	-
Maintenance Supplies	5,300.00	4,660.00	4,513.13	146.87
Maintenance - Building	2,500.00	3,650.00	-	3,650.00
Maintenance - Vehicle	4,000.00	10,800.00	15,048.82	(4,248.82)
Miscellaneous	8,750.00	6,600.00	6,569.80	30.20
Capital Outlay	10,000.00	13,010.00	12,336.00	674.00
Debt Service - Principal	13,720.00	14,300.00	14,296.87	3.13
Debt Service - Interest	2,180.00	1,600.00	1,545.58	54.42
<u>Total Expenditures</u>	<u>114,260.00</u>	<u>121,320.00</u>	<u>121,208.89</u>	<u>111.11</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	-	-	(2,157.03)	(2,157.03)
<u>Other Financing Sources</u>				
Operating Transfers In (Out)	-	-	-	-
<u>Excess of Revenues & Other Sources Over (Under) Expenditures & Other Uses</u>	-	-	(2,157.03)	(2,157.03)
<u>Fund Balance - Beginning of Year</u>	-	-	59,451.15	59,451.15
<u>Fund Balance - End of Year</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,294.12</u>	<u>\$ 57,294.12</u>

Brown City Area Fire Authority

Required Supplemental Information
Budgetary Comparison Schedule
Equipment Reserve Fund
For The Year Ended March 31, 2008

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
<u>Revenues</u>				
Equipment Reserve Fees				
Burnside Township	\$ 3,870.00	\$ 3,870.00	\$ 3,870.00	\$ -
Flynn Township	2,400.00	2,400.00	2,400.00	-
Lynn Township	900.00	900.00	900.00	-
Maple Valley Township	3,500.00	3,500.00	3,500.00	-
City of Brown City	2,500.00	2,500.00	2,500.00	-
Interest	2,000.00	3,400.00	3,333.61	(66.39)
Other Revenue	-	-	-	-
<u>Total Revenues</u>	<u>15,170.00</u>	<u>16,570.00</u>	<u>16,503.61</u>	<u>(66.39)</u>
<u>Expenditures</u>				
Miscellaneous	<u>15,170.00</u>	<u>16,570.00</u>	<u>-</u>	<u>16,570.00</u>
<u>Total Expenditures</u>	<u>15,170.00</u>	<u>16,570.00</u>	<u>-</u>	<u>16,570.00</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	-	-	16,503.61	16,503.61
<u>Other Financing Sources</u>				
Operating Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Excess of Revenues & Other Sources Over (Under) Expenditures & Other Uses</u>	-	-	16,503.61	16,503.61
<u>Fund Balance - Beginning of Year</u>	<u>-</u>	<u>-</u>	<u>100,867.64</u>	<u>100,867.64</u>
<u>Fund Balance - End of Year</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,371.25</u>	<u>\$ 117,371.25</u>

Other Supplemental Information

Brown City Area Fire Authority
Other Supplemental Information
Schedule of Indebtedness
March 31, 2008

Fire Hall Construction

Dated October 13, 1993
Original Issue \$163,500

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal Outstanding March 31,</u>		<u>Remaining Annual Interest Payable</u>
		<u>2008</u>	<u>2007</u>	
4.50%	5/1/2007	\$ -	\$ 14,297	\$ -
4.50%	5/1/2008	15,003	15,003	839
4.50%	5/1/2009	3,655	3,655	164
<u>Total Revenue Bonds</u>		<u>\$ 18,658</u>	<u>\$ 32,955</u>	<u>\$ 1,003</u>

June 3, 2008

Brown City Area Fire Authority
Brown City, Michigan

To Members of the Board:

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Fire Authority for the year ended March 31, 2008, and have issued my report thereon dated June 4, 2008. Professional standards require that I provide you with the following information related to my audit.

My Responsibility under U.S. Generally Accepted Auditing Standards

My responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

I performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Fire Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ending March 31, 2008. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about

future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Audit Adjustments (Corrected and Uncorrected Misstatements)

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated June 4, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Communication of Significant Deficiencies and Material Weaknesses

In planning and performing my audit of the financial statements, as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, I considered the Fire Authority's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, I do not express an opinion on the effectiveness of the governmental unit's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control that I consider to be significant deficiencies and other deficiencies that I consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. I considered the following deficiencies to be significant deficiencies in internal control:

Preparation of Financial Statements - Management prepares internal financial information to assess operations and the financial position of the Fire Authority on an ongoing basis. Although the internal financial information is sufficient to operate the Township, it is not presented in accordance with generally accepted accounting principles. The Township contracts with me, the auditor, to draft the financial statements, including all necessary notes, in accordance with generally accepted accounting principles, since it does not retain staffing that currently have the expertise. I believe this meets the definition of a material weakness under *Statement on Auditing Standards 112*.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The AICPA Auditing Standards Board issued Statements on Audit Standards (SAS) 112 which establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting and is effective for periods ending after December 15, 2006. According to SAS 112, it is considered to be a control deficiency if a client I am auditing has ineffective controls over the preparation of their financial statements such that client controls are absent or controls are not effective in preventing or detecting material misstatements in the preparation of the financial statements, including the related footnotes.

Accrual Adjustments – During the audit, I generally provide significant assistance in identifying and posting accrual adjustments to the accounting records. Accruals represent any adjustments other than cash that impact the accounting records. I bring this to your attention since it meets the above definition on a matter to be communicated.

Segregation of Duties - The relative size of the Fire Authority limits the extent to which the officials can segregate duties and responsibilities which impairs the basic premise that no one individual should have access to both the physical assets and the related accounting records (or all recording tasks of a transaction from inception to completion).

The Township has implemented mitigating controls to strengthen internal controls and the segregation of duties; however, it must be recognized that the risk of intentional or unintentional errors could be made and not detected in a timely manner.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Brown City Area Fire Authority's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Brown City Area Fire Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of the Fire Authority, and Federal and State agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Lehn King

Lehn L. King
Certified Public Accountant